

HANCOCK COUNTY

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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HANCOCK COUNTY
Garner, Iowa

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
W. David Smith	Board of Supervisors	Jan 2007
Florence Thomas-Greiman	Board of Supervisors	Jan 2007
Jerry Tlach	Board of Supervisors	Jan 2006
Debra Bellinghausen	County Auditor	Jan 2006
Jean Bell	County Treasurer	Jan 2007
Sandra Brunsen	County Recorder	Jan 2007
Scott Dodd	County Sheriff	Jan 2009
Karen Kaufman - Salic	County Attorney	Jan 2007
Marianne Welsch	County Assessor	Appointed

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Hancock County
Garner, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hancock County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Hancock County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County at June 30, 2006, and the respective changes in financial position and the cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 5, 2007 on our consideration of Hancock County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hancock County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

January 5, 2007

Renner & Birchem, P.C.

Hancock County
Garner, Iowa

Exhibit A

Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 8,178,781
Receivables:	
Property tax:	
Delinquent	9,814
Succeeding year	3,533,936
Accounts	50,598
Interest	25,496
Drainage assessments	162,101
Due from other governments	533,970
Inventories	311,982
Prepaid insurance	84,414
Capital assets (net of accumulated depreciation) (note 5)	16,483,331
Total assets	<u>29,374,423</u>
Liabilities	
Accounts payable	427,387
Salaries and benefits payable	95,557
Due to other governments	181,028
Deferred revenue:	
Succeeding year property tax	3,533,936
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	43,506
Portion due or payable after one year:	
Drainage district warrants and certificates payable	294,017
Total Liabilities	<u>4,575,431</u>
Net Assets	
Invested in capital assets net of related debt	16,483,331
Restricted for:	
Mental health purposes	307,798
Secondary roads purposes	2,668,902
Other purposes	298,432
Unrestricted	5,040,529
Total net assets	<u>\$ 24,798,992</u>

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit B

Statement of Activities
Year ended June 30, 2006

		Program Revenues		Net (Expense)
		Charges for Services	Operating Grants Contributions and Restricted Interest	
	Expenses			Revenue Changes in Net Assets
Functions/Programs:				
Governmental activities:				
Public safety and legal services	\$ 1,162,470	382,795	15,142	(764,533)
Physical health and social services	2,070,456	895,570	877,134	(297,752)
Mental health	1,373,780	119,516	115,272	(1,138,992)
County environment and education	526,026	51,292		(474,734)
Roads & transportation	4,453,403	138,348	2,525,709	(1,789,346)
Governmental services to residents	450,957	209,530		(241,427)
Administrative services	1,088,836	8,062		(1,080,774)
Non-program	367,547	66,508		(301,039)
Total	\$ 11,493,475	1,871,621	3,533,257	(6,088,597)
General Revenues:				
Property and other county tax levied for				
General purposes				3,347,976
Penalty and interest on property tax				31,087
State tax credits				209,001
Local option sales tax				393,421
Grants and contributions not restricted to specific purpose				586,637
Unrestricted investment earnings				377,015
Miscellaneous				518,781
Total general revenues				5,463,918
Change in net assets				(624,679)
Net assets beginning of year				25,423,671
Net assets end of year				\$ 24,798,992

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit D

Reconciliation of the Balance Sheet-
Governmental Funds to the Statement of Net Assets

June 30, 2006

Total governmental fund balances (page 17) \$ 8,244,409

*Amounts reported for governmental activities in the statement of net
assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$34,584,097 and the accumulated depreciation is \$18,100,767. 16,483,331

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 156,060

The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. 252,715

Long-term liabilities, including drainage warrants and certificates and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds. (337,523)

Net assets of governmental activities (page 15) \$ 24,798,992

See notes to financial statements.

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds to the Statement
of Activities

June 30, 2006

Net change in fund balances - Total governmental fund (page 19) \$ (780,620)

*Amounts reported for governmental activities in the statement of
activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlays exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	1,683,203	
Depreciation expense	<u>(1,378,722)</u>	304,481

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (30,570)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

Property tax	63	
Other	<u>(75,216)</u>	(75,153)

Repayment of drainage warrants exceeded current year issues. 5,407

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences		(16,045)
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The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The net revenue (loss) of the Internal Service Fund is reported with governmental activities. (32,179)

Change in net assets of governmental activities (page 16) \$ (624,679)

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit G

Statement of Net Assets

Proprietary Fund

June 30, 2006

	<u>Medical Benefits</u>
Assets	
Cash and cash equivalents	<u>\$ 254,292</u>
Total assets	<u>254,292</u>
Liabilities	
Accounts payable	1,577
Net Assets	<u>252,715</u>
Unrestricted	<u>\$ 254,292</u>

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit H

Statement of Revenues, Expenses, and Changes
in Fund Net Assets

Proprietary Fund

Year ended June 30, 2006

	Medical Benefits
Operating revenues:	
Reimbursements	\$ 885,309
Operating expenses:	
Medical claims	923,953
Operating (loss)	(38,644)
Non-operating revenues:	
Interest	6,465
Net (loss)	(32,179)
Net assets beginning of year	284,894
Net assets end of year	\$ 252,715

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit I

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2006

	Medical Benefits
Cash flows from operating activities:	
Cash received from reimbursements	\$ 885,309
Cash payments to suppliers for services	923,731
Net cash (used) by operating activities	(38,422)
Cash flows from investing activities:	
Interest on investments	6,465
Net (decrease) in cash and cash equivalents	(31,957)
Cash and cash equivalents at beginning of year	286,249
Cash and cash equivalents at end of year	\$ 254,292
Reconciliation of operating income to net cash provided by operating activities:	
Operating (loss)	\$ (38,644)
Adjustments to reconcile operating income to net cash provided by operating activities:	
increase in accounts payable	222
Net cash (used) by operating activities	\$ (38,422)

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit J

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2006

Assets

Cash and pooled investments:

County Treasurer	\$ 529,854
Other County officials	53,437

Property tax receivable:

Delinquent	47,921
Succeeding year	13,269,946

Accounts receivable	18,632
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Total assets	<u>\$ 13,919,790</u>
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Liabilities

Accounts payable	\$ 33,764
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Salaries payable	4,982
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Due to other governments	13,832,791
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Trust payable	47,160
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Compensated absences	1,093
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Total liabilities	<u>13,919,790</u>
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Net assets

\$	<u>-</u>
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See notes to financial statements.

HANCOCK COUNTY
Garner, Iowa

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

1. Summary of Significant Accounting Policies

Hancock County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. **REPORTING ENTITY**

For financial reporting purposes, Hancock County has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County.

These financial statements present Hancock County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units - The following component units are entities which are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

Drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Although these districts are legally separate from the County, they are controlled,

managed and supervised by Hancock County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Hancock County Auditor's office.

Jointly Governed Organizations - The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following board and commissions: Hancock County Assessor's Conference Board, Hancock County Emergency Management Commission, and Hancock County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in an Agency Fund of the County.

B. BASIS OF PRESENTATION

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operation or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Public Health Nurses Fund is used to account for public health operations.

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Secondary Road Highway 111 Fund is used to account for maintenance and operations of Highway 111.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Fund - Agency Funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/ or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary fund of the County applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. **ASSETS, LIABILITIES, AND FUND EQUITY**

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the non-negotiable certificates of deposit which are stated at cost.

For purpose of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with 1 1/2% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2005.

Drainage Assessments Receivable - Drainage assessments receivable represents the amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Assessment receivable represent assessments which are due and payable but have not been collected.

Due From and Due to Other Funds - During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in fund financial statements.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutter, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years, based on Board of Supervisors resolution.

Infrastructure	\$ 50,000
Land, buildings and improvements	25,000
Equipment and vehicles	5,000

Property and equipment of the County is depreciated using the straight line method over the following estimated useful lives.

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Buildings and improvements	20 – 50
Infrastructure	12 – 65
Equipment	5 – 10
Vehicles	5 – 10

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represent amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences - County employees accumulated a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. **BUDGETS AND BUDGETARY ACCOUNTING**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. **Cash and Pooled Investments**

The County's deposits at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Special Revenue:		
Public Health Nurses	General	\$ 127,000
Conservation	General	212,000
	Special Revenue:	
Secondary Roads	Rural Services	1,042,250
Rural Services	Governmental Assistance	<u>26,919</u>
		<u>\$1,408,169</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 356,891			356,891
Total capital assets not being depreciated	356,891			356,891
Capital assets being depreciated:				
Buildings	7,764,080			7,764,080
Machinery and equipment	6,866,458	587,435	(272,707)	7,181,186
Infrastructure	18,186,172	1,095,768		19,281,940
Total capital assets being depreciated	32,816,710	1,683,203	(272,707)	34,227,206
Less accumulated depreciation for:				
Buildings	1,829,049	175,589		2,004,638
Machinery and equipment	4,115,728	569,707	(242,137)	4,443,298
Infrastructure, road network	11,019,405	633,426		11,652,831
Total accumulated depreciation	16,964,182	1,378,722	(242,137)	18,100,767
Total capital assets being depreciated, net	15,852,528	304,481	(30,570)	16,126,439
Governmental activities capital assets, net	\$ 16,209,419	304,481	(30,570)	16,483,330

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
Public safety and legal services	\$ 71,467
Physical health and social services	27,308
County environment and education	28,743
Roads and transportation	1,082,611
Governmental services to residents	32,676
Administrative services	135,917
Total depreciation expense - Governmental activities	\$ 1,378,722

5. **Due to Other Governments**

The County acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
Public Health Nurses		\$ <u>181,028</u>
Total for Governmental Funds		\$ <u>181,028</u>
Agency:		
Schools	Collections	\$ 9,060,415
Community Colleges		362,362
Corporations		2,670,168
Auto License & Use Tax		214,189
Townships		208,155
County Hospital		785,497
All other		<u>531,799</u>
Total for Agency Funds		<u>\$13,832,565</u>

6. **Changes in Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>Drainage Warrants</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance beginning of year	\$ 299,424	\$ 27,461	\$ 326,885
Increases	360,113	16,045	376,158
Decreases	(365,520)		(365,520)
Balance end of year	\$ <u>294,017</u>	\$ <u>43,506</u>	\$ <u>337,523</u>
Due within one year	\$ _____	\$ <u>43,506</u>	\$ <u>43,506</u>

7. **Pension and Retirement Benefits**

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$249,076, \$193,947, and \$177,382 respectively, equal to the required contributions for each year.

8. **Risk Management**

The County is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. **Employee Health Insurance Plan**

The Hancock County Employee Medical Benefits Fund was established to account for the partial self funding of the County's health insurance benefit plan. Hancock County has entered into an administrative services agreement with Blue Cross and Blue Shield of Iowa to administer the plan. The agreement is subject to automatic renewal provisions.

Monthly payments of services fees and plan contributions to the Hancock County Medical Benefits Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Blue Cross and Blue Shield of Iowa from the County Medical Benefits Fund. The County records the plan assets and related liabilities of the Hancock County Medical Benefits Fund as an Internal Service Fund.

10. **Contingent Liability**

On November 1, 1996 the County entered into an agreement to borrow \$700,000 to renovate Hancock County Memorial Hospital, with annual maturities on December 1, through 2012 interest rate at 4.00 to 5.50%; interest payable semi-annually on June 1 and December 1.

Bonds were issued to provide partial funding of the cost of construction and equipping of an addition to Hancock County Memorial Hospital and remodeling and equipping portions of the existing hospital.

The County and Hancock County Memorial Hospital entered into an agreement providing for the payment of the annual debt service solely from the revenues and income of the hospital.

On June 26, 1996 the County entered into an agreement to borrow \$1,200,000, Hospital Revenue Note, Series A, to provide partial funding for the Hancock County Memorial Hospital renovation. The bonds have annual maturities of December 1 through 2012. Interest rate at 5.75 to 7.00% is payable semi-annually on June 1 and December 1. The revenue note is not a general obligation of the County, and under no circumstances shall the County be liable by reason of failure of the aforesaid revenues of the hospital to be sufficient to pay the note and interest thereon.

During the year ended June 30, 2006 principal of \$120,000 and interest of \$70,521 was paid by Hancock County Memorial Hospital on the above debt. These payments are not included in the County's financial statements. The liability for these bonds is not recorded on Exhibit A since the bonds are to be paid from other than County resources.

A summary of the above indebtedness at June 30, 2006 is as follows:

Year Ending June 30	Hospital General Obligation County Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 45,000	19,130	64,130	80,000	44,125	124,125
2008	50,000	16,730	66,730	85,000	38,721	123,721
2009	50,000	14,155	64,155	90,000	32,900	122,900
2010	55,000	11,425	66,425	95,000	26,656	121,656
2011	60,000	8,405	68,405	105,000	19,775	124,775
2012	60,000	5,195	65,195	110,000	12,250	122,250
2013	<u>65,000</u>	<u>1,788</u>	<u>66,788</u>	<u>120,000</u>	<u>4,200</u>	<u>124,200</u>
	\$ <u>385,000</u>	<u>76,828</u>	<u>461,828</u>	<u>685,000</u>	<u>178,627</u>	<u>863,627</u>

REQUIRED SUPPLEMENTARY INFORMATION

Hancock County
Garner, Iowa

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 10,529,226	(54,661)	10,474,565
Expenditures	11,508,201	113,564	11,621,765
Net	(978,975)	(168,225)	(1,147,200)
Other financing sources, net	414,364	(47,784)	366,580
Beginning fund balances	8,489,092	535,937	9,025,029
Ending fund balances	\$ 7,924,481	319,928	8,244,409

See accompanying independent auditor's report.

Hancock County
Garner, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

In accordance with Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administrative services, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment decreased budgeted disbursements by \$1,682,000. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Property and other County tax	\$ 3,741,332	3,717,372	3,612,065	2,544,678
Interest and penalty on property tax	31,087	28,282	28,236	32,693
Intergovernmental	5,465,711	5,373,825	5,220,159	4,349,814
Licenses and permits	3,525	1,075	2,850	3,613
Charges for service	465,932	457,339	420,296	399,495
Use of money and property	370,550	242,888	230,508	325,387
Miscellaneous	396,428	665,255	595,770	945,524
Total	<u>\$ 10,474,565</u>	<u>10,486,036</u>	<u>10,109,884</u>	<u>8,601,204</u>
Expenditures:				
Current:				
Public safety and legal services	\$ 1,173,102	1,110,007	1,006,704	968,116
Physical health and social services	2,040,593	1,961,517	2,290,820	1,326,664
Mental health	1,373,780	1,306,593	1,318,828	1,274,341
County environment and education services	508,975	567,613	480,131	464,718
Roads and transportation	3,739,113	3,253,904	3,264,047	2,813,596
Governmental services to residents	415,247	307,543	266,368	260,287
Administrative services	933,683	857,766	818,195	780,356
Non-program	367,547	323,713	210,263	849
Capital projects	1,069,725	225,081	204,308	682,308
Total	<u>\$ 11,621,765</u>	<u>9,913,737</u>	<u>9,859,664</u>	<u>8,571,235</u>

See accompanying independent auditor's report.

Hancock County
Garner, Iowa

Schedule 6

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect			
U.S. Department of Transportation: Iowa Department of Transportation Highway Planning and Construction	20.205	BROS-CO41(19)-8J-41	\$ 121,789
U.S. Department of Health & Human Services Iowa Department of Human Services Human Services Administrative Reimbursements: Social Services Block Grant	93.667		34,711
Social Services Block Grant	93.667		109,907
			144,618
U.S. Department of Health & Human Services Iowa Department of Public Health: I-4 Immunization Grant	93.268	5884I447	4,155
Breast & Cervical Cancer Prevention	93.283	5884NBIZ	8,955
Public Health Preparedness and Response for Bioterrorism	93.283	5885BT08	766,546
Wisewoman Cardiovascular	93.283	5886WW23	5,308
			784,964
Total Indirect			\$ 1,051,371

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hancock County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Officials of Hancock County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated January 5, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hancock County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hancock County and other parties to whom Hancock County may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hancock County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 5, 2007

Renner & Birchem, P.C.

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance
In Accordance with OMB Circular A-133

To the Officials of Hancock County:

Compliance

We have audited the compliance of Hancock County, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Hancock County's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal program is the responsibility of Hancock County's management. Our responsibility is to express an opinion on Hancock County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hancock County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hancock County's compliance with those requirements.

In our opinion Hancock County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Hancock County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Hancock County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A- 133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hancock County and other parties to whom Hancock County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

January 5, 2007

Renner & Birchem, P.C.

HANCOCK COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 93.283 – Public Health Preparedness and Response for Bioterrorism.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Hancock County did not qualify as a low risk auditee.

HANCOCK COUNTY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

Reportable Conditions

II-A-06 Segregation of Duties-During our review of the internal accounting control structure, the existing procedures is evaluated in order that incompatible duties, from a control viewpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation-We realize that with a limited number of office employees, segregation of duties is difficult. However, the County officials should continue to review the operating procedures of the office to obtain maximum internal control possible under the circumstances.

Response-In small Counties where there are fewer employees, they sometimes do a variety of duties which may overlap from time to time. However, we try to comply with the segregation of duties as much as possible and continue our review of that work.

Conclusion-Response accepted.

Instances of Non-Compliance

No matters were noted.

HANCOCK COUNTY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance

No matters were noted.

Reportable Conditions:

No material weaknesses in internal controls over major programs were noted.

HANCOCK COUNTY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-06 Official Depositories-A resolution naming official depository banks has been adopted by the board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

IV-B-06 Certified Budget-Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

IV-C-06 Questionable Expenditures-We noted no expenditures that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-06 Travel Expense-No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-06 Business Transactions-No business transactions between the County and County officials or employees were noted.

IV-F-06 Bond Coverage-Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.

IV-G-05 Board Minutes-No transactions were found that we believe should have been approved in the board minutes but were not.

IV-H-06 Deposits and Investments-No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's investment policy were noted.

IV-I-06 Resource Enhancement and Protection Certification-The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

IV-J-06 County Extension Office-The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and consequently, is not included in Exhibits A or B.

Disbursements for the County Extension Office during the year ended June 30, 2006 did not exceed the amount budgeted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hancock County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the county's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Hancock County governmental funds revenue increased 1.27%, or approximately \$ 135,897 from 2006. \$3,347,976 was generated from property and other County taxes.
- Hancock County 2006 program expenses were \$799,709 more than 2005. Roads and transportation expense increased approximately \$224,628.
- The County's net assets decreased 2.46%, or approximately \$624,600, at June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hancock County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hancock County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hancock County acts solely as an agent or custodian for the benefit of those outside of the government (Agency Funds).

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the County.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which help answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration and other non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has three kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds such as Mental Health, Rural Service, Public Health and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the County's employee group health insurance, dental and vision insurance and internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for emergency management services and the County Assessor to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The County's combined net assets were virtually unchanged from a year ago. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)			
		June 30	
		2006	2005
Current and other assets		12,891	13,527
Capital assets		16,483	16,209
	Total assets	29,374	29,736
Other liabilities		4,575	4,313
	Total liabilities	4,575	4,313
Net assets			
Invested in capital assets		16,483	16,209
Restricted		3,275	3,934
Unrestricted		5,041	5,281
	Total net assets	24,799	25,424

Net assets of the County's governmental activities decreased by 2.5%. The largest portion of the County's net assets is the Invested in Capital Assets (e.g., land, infrastructure, buildings and equipment). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was approximately \$5.0 million at June 30, 2006, a 4.5% decrease from June 30, 2005.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	1,872	1,679
Operating grants, contributions and restricted interest	3,533	3,855
General revenues:		
Property tax	3,348	3,326
Penalty and interest on property tax	31	28
State tax credits	209	212
Local option sales tax	393	391
Grants and contributions not restricted to specific purposes	587	623
Unrestricted investment earnings	377	247
Other general revenues	519	372
Total revenues:	10,869	10,733
Program expenses:		
Public safety and legal services	1,163	964
Physical health and social service	2,070	1,922
Mental health	1,374	1,306
County environment and education	526	584
Roads and transportation	4,453	4,229
Governmental services to residents	451	336
Administration	1,089	1,029
Non-program	368	324
Total expenses:	11,494	10,694
Increase <decrease> in net assets	<625>	39
Net assets beginning of year	25,424	25,385
Net assets end of year	24,799	25,424

The results of governmental activities for the year resulted in Hancock County's net assets decreasing by approximately \$624,679. Revenues for governmental activities increased by approximately \$136,000 over the prior year.

The cost of all governmental activities this year was \$11.5 million compared to \$10.7 million last year. However, as shown in the Statement of Activities on page 16, the amount ultimately financed for these activities through County taxes and other unrestricted revenues was only \$5.5 million because some of the cost was paid by those directly benefited from the programs (\$1,871,621) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,533,257).

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$8.2 million, which is \$800,000 below last year's total of \$9 million. The County funds expended approximately \$780,600 more than were received in operating revenues for the year. The following are the major reasons for the changes in fund balances from the prior year:

- General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed a decline from the prior year of \$167,600 to \$2,175,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,373,800, an increase of 5.1% from the prior year. The Mental Health Fund balance at year ended increased by approximately \$69,000 over the prior year and reflects a balance of \$307,798.
- Secondary Roads Fund expenditures increased by approximately \$1,328,578 over the prior year. The County continues to aggressively upgrade and maintain the condition of the County roadway system. The Secondary Road Fund balance at year end decreased by approximately \$919,700 over the prior year.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County amended its operating budget once. This amendment was made in May, 2006 and resulted in a decrease in Special Revenue Funds revenues and also expenditures. This amendment was made to provide for an decrease in revenues and expenditures due to bioterrorism grant monies for the public health nurse fund that were not received and road and bridge projects for secondary road fund that were unable to be completed in the fiscal year.

None of the amendments made during the 2006 fiscal year should have any impact on the 2007 fiscal year's budget.

CAPITAL ASSETS

At June 30, 2006 Hancock County had approximately \$16.4 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions and depreciation) of approximately \$274,000 or 1.7 % from last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)		
	2006	2005
Land	357	357
Buildings and improvements	5,759	5,935
Machinery and equipment	2,738	2,750
Infrastructure	7,629	7,167
Totals	16,483	16,209

The County had depreciation expense of \$1,378,722 for the year ended June 30, 2006 and total accumulation depreciation as of June 30, 2006 of \$18,100,767.

The County's fiscal year 2006 capital budget included \$1,320,000 for capital projects, principally for the continued upgrading of secondary roads, equipment and bridges. More detailed information about the County's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Hancock County's elected and appointed officials and citizens considered many factors when setting the 2007 fiscal year budget, tax rates, and the fees that will be charged for the various County activities. One of those factors is the economy which includes oil, gas prices and utility costs. Others include land valuations and the consumer price index (CPI).

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Hancock County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, Hancock County, 855 State Street, Garner, Iowa.

Hancock County
Garner, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2006

	Special Revenue							Total
	General	Public Health Nurses	Mental Health	Rural Services	Secondary Roads	Secondary Roads Hwy 111	Nonmajor Special Revenue	
Assets								
Cash and pooled investments	\$ 2,131,551	85,242	489,455	319,844	2,313,668	1,434,236	1,150,493	7,924,489
Receivables:								
Property tax:								
Delinquent	6,812		2,063	939				9,814
Succeeding year	2,094,861		611,346	827,729				3,533,936
Accounts	35,220	11,672	642		2,242		822	50,598
Accrued interest	25,496							25,496
Drainage assessments							162,101	162,101
Due from other governments	3,872	276,443	21,630	29,614	198,756		3,655	533,970
Inventories					311,982			311,982
Prepaid insurance	66,382				18,032			84,414
Total assets	\$ 4,364,194	373,357	1,125,136	1,178,126	2,844,680	1,434,236	1,317,071	12,636,800
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 42,535	44,719	203,350	6,792	120,379		8,035	425,810
Salaries and benefits payable	44,898	11,641	617	339	33,614		4,448	95,557
Due to other governments		181,028						181,028
Deferred revenue:								
Succeeding year property tax	2,094,861		611,346	827,729				3,533,936
Other	6,681		2,025	937			146,417	156,060
Total liabilities	2,188,975	237,388	817,338	835,797	153,993		158,900	4,392,391
Fund balances:								
Reserved for:								
Supplemental levy purposes	52,700							52,700
Drainage							147,600	147,600
Resource enhancement and protection							45,717	45,717
Unreserved, reported in:								
General fund	2,122,519							2,122,519
Special revenue funds		135,969	307,798	342,329	2,690,687	1,434,236	964,854	5,875,873
Total fund balances	2,175,219	135,969	307,798	342,329	2,690,687	1,434,236	1,158,171	8,244,409
Total liabilities and fund balances	\$ 4,364,194	373,357	1,125,136	1,178,126	2,844,680	1,434,236	1,317,071	12,636,800

See notes to financial statements.

Hancock County
Garner, Iowa

Exhibit E

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	Special Revenue						Nonmajor Special Revenue	Total
	General	Public Health Nurses	Mental Health	Rural Services	Secondary Roads	Secondary Roads Hwy 111		
Revenue:								
Property and other County tax	\$ 1,955,237		592,318	1,193,777				3,741,332
Interest and penalty on property tax	31,087							31,087
Intergovernmental	483,658	1,359,185	848,451	49,422	2,702,351		22,644	5,465,711
Licenses and permits	1,775				1,750			3,525
Charges for services	359,535	54,096			429		51,872	465,932
Use of money and property	299,497				16,989	32,973	21,091	370,550
Miscellaneous	148,587	52,669	2,216		115,806		77,150	396,428
Total revenues	<u>3,279,376</u>	<u>1,465,950</u>	<u>1,442,985</u>	<u>1,243,199</u>	<u>2,837,325</u>	<u>32,973</u>	<u>172,757</u>	<u>10,474,565</u>
Expenditures:								
Current:								
Public safety and legal services	1,173,102							1,173,102
Physical health and social services	530,482	1,501,728					8,383	2,040,593
Mental health			1,373,780					1,373,780
County environment and education services	69,304			164,108			275,563	508,975
Roads and transportation					3,739,113			3,739,113
Governmental services to residents	401,405			3,118			10,724	415,247
Administrative services (1611)	931,662			2,021				933,683
Non-program	2,027						365,520	367,547
Capital projects					1,060,204		9,521	1,069,725
Total expenditures	<u>3,107,982</u>	<u>1,501,728</u>	<u>1,373,780</u>	<u>169,247</u>	<u>4,799,317</u>		<u>669,711</u>	<u>11,621,765</u>
Excess(deficiency) of revenue over (under) expenditures	<u>171,394</u>	<u>(35,778)</u>	<u>69,205</u>	<u>1,073,952</u>	<u>(1,961,992)</u>	<u>32,973</u>	<u>(496,954)</u>	<u>(1,147,200)</u>
Other financing sources (uses):								
Operating transfers in		127,000		26,919	1,042,250		212,457	1,408,626
Operating transfers out	(339,000)			(1,042,250)			(27,376)	(1,408,626)
Drainage proceeds							366,580	366,580
Total other financing sources (uses)	<u>(339,000)</u>	<u>127,000</u>		<u>(1,015,331)</u>	<u>1,042,250</u>		<u>551,661</u>	<u>366,580</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(167,606)</u>	<u>91,222</u>	<u>69,205</u>	<u>58,621</u>	<u>(919,742)</u>	<u>32,973</u>	<u>54,707</u>	<u>(780,620)</u>
Fund balances beginning of year	<u>2,342,825</u>	<u>44,747</u>	<u>238,593</u>	<u>283,708</u>	<u>3,610,429</u>	<u>1,401,263</u>	<u>1,103,464</u>	<u>9,025,029</u>
Fund balances end of year	<u>\$ 2,175,219</u>	<u>135,969</u>	<u>307,798</u>	<u>342,329</u>	<u>2,690,687</u>	<u>1,434,236</u>	<u>1,158,171</u>	<u>8,244,409</u>

See notes to financial statements.

Hancock County
Garner, Iowa

Budgetary Comparison Schedule of

Receipts, Disbursements and Changes in Balances -

Budget and Actual (Cash Basis) - All Governmental Funds

Required Supplementary Information

Year ended June 30, 2006

	Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final Variance to Net
				Original	Final	
Receipts:						
Property and other County tax	\$ 3,762,228		3,762,228	3,702,740	3,702,740	59,488
Interest and penalty on property tax	31,087		31,087	26,000	26,000	5,087
Intergovernmental	5,521,997		5,521,997	6,911,078	6,439,078	(917,081)
Licenses and permits	3,605		3,605	2,900	2,900	705
Charges for services	472,379		472,379	550,862	550,862	(78,483)
Use of money and property	350,052		350,052	168,480	168,480	181,572
Miscellaneous	387,878	68,749	319,129	200,272	200,272	118,857
Total receipts	10,529,226	68,749	10,460,477	11,562,332	11,090,332	(629,855)
Disbursements:						
Public safety and legal services	1,171,373		1,171,373	1,255,311	1,255,311	83,938
Physical health and social services	2,014,631		2,014,631	2,608,527	2,065,527	50,896
Mental health	1,208,680		1,208,680	1,338,400	1,338,400	129,720
County environment and education services	496,836		496,836	504,033	504,033	7,197
Roads and transportation	3,789,784		3,789,784	4,712,000	4,012,000	222,216
Governmental services to residents	413,600		413,600	412,835	448,835	35,235
Administrative services	926,497		926,497	1,182,272	1,007,272	80,775
Non-program	367,367	365,520	1,847	2,000	2,000	153
Capital projects	1,119,433		1,119,433	1,620,000	1,320,000	200,567
Total disbursements	11,508,201	365,520	11,142,681	13,635,378	11,953,378	810,697
Excess (deficiency) of receipts over (under) disbursements	(978,975)	(296,771)	(682,204)	(2,073,046)	(863,046)	180,842
Other financing sources, net	414,364	414,364				0
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(564,611)	117,593	(682,204)	(2,073,046)	(863,046)	180,842
Balance beginning of year	8,489,092	14,323	8,474,769	8,096,199	8,096,199	3,318,213
Balance end of year	\$ 7,924,481	131,916	7,792,565	6,023,153	7,233,153	3,499,055

See accompanying independent auditor's report.

HANCOCK COUNTY
Garner, Iowa

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	Communi- cations Revolving	Drainage Districts	Conservation Reserve	Conservation	Resource Enhancement & Protection	County Recorders Records Management	Mokry Poor Trust	Funnemark Trust	Total
ASSETS									
Cash and pooled investments	\$ 54,853	131,916	44,551	9,372	42,062	34,159	780,002	53,578	1,150,493
Receivables:									
Accounts	25					797			822
Drainage assessments		162,101							162,101
Due from other governments					3,655				3,655
TOTAL ASSETS	<u>54,878</u>	<u>294,017</u>	<u>44,551</u>	<u>9,372</u>	<u>45,717</u>	<u>34,956</u>	<u>780,002</u>	<u>53,578</u>	<u>1,317,071</u>
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable			1,721	6,314					8,035
Salaries and benefits payable				4,448					4,448
Deferred revenue:									
Other		146,417							146,417
Total liabilities		<u>146,417</u>	<u>1,721</u>	<u>10,762</u>					<u>158,900</u>
Fund equity:									
Fund balance:									
Reserved for:									
Drainage		147,600							147,600
Unreserved	54,878		42,830	(1,390)	45,717	34,956	780,002	53,578	1,010,571
Total fund equity	<u>54,878</u>	<u>147,600</u>	<u>42,830</u>	<u>(1,390)</u>	<u>45,717</u>	<u>34,956</u>	<u>780,002</u>	<u>53,578</u>	<u>1,158,171</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 54,878</u>	<u>294,017</u>	<u>44,551</u>	<u>9,372</u>	<u>45,717</u>	<u>34,956</u>	<u>780,002</u>	<u>53,578</u>	<u>1,317,071</u>

See accompanying independent auditor's report.

HANCOCK COUNTY
Garner, Iowa

Schedule 2

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
Year ended June 30, 2006

	Communi- cations Revolving	Drainage Districts	Conservation Reserve	Conservation	County Government Assistance	Resource Enhancement & Protection	County Recorder's Records Management	Mokry Poor Trust	Funnemark Trust	County Recorder's Electronic Transaction Fee	Total
REVENUES:											
Intergovernmental	\$ 14,225					8,419					22,644
Charges for services				48,876			2,996				51,872
Uses of money and property				97		953	753	17,997	1,232	59	21,091
Miscellaneous		68,749	5,925	2,476							77,150
Total revenues	14,225	68,749	5,925	51,449		9,372	3,749	17,997	1,232	59	172,757
EXPENDITURES:											
Operating:											
Physical health social services								8,383			8,383
County environment and education			10,724	264,839							275,563
Government services to residents										10,724	10,724
Capital projects			9,521								9,521
Non-Program		365,520									365,520
Total expenditures	0	365,520	20,245	264,839				8,383		10,724	669,711
Excess (deficiency) of revenues over (under) expenditures	14,225	(296,771)	(14,320)	(213,390)		9,372	3,749	9,614	1,232	(10,665)	(496,954)
Other financing sources (uses):											
Drainage proceeds		366,580									366,580
Transfers in				212,000			457				212,457
Transfers (out)					(26,919)					(457)	(27,376)
Total other financing sources (uses):		366,580		212,000	(26,919)		457			(457)	551,661
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses:	14,225	69,809	(14,320)	(1,390)	(26,919)	9,372	4,206	9,614	1,232	(11,122)	54,707
Fund balances beginning of year	40,653	77,791	57,150		26,919	36,345	30,750	770,388	52,346	11,122	1,103,464
Fund balances end of year	\$ 54,878	147,600	42,830	(1,390)		45,717	34,956	780,002	53,578		1,158,171

See accompanying independent auditor's report.

HANCOCK COUNTY
Garner, Iowa

Schedule 3
(continued)

AGENCY FUNDS
COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2006

	County Assessor	Special Appraiser	Schools	Community Colleges	Corporations	Townships	Special Assessment	Advance Tax
ASSETS								
Cash and pooled investments:								
County treasurer	54,907	36,261	111,901	4,811	24,671	2,900	238	651
Other County officials								
Receivables:								
Property tax:								
Delinquent	545	291	25,026	1,082	17,871	185		
Succeeding year	154,108	116,591	8,923,488	356,469	2,627,626	205,070		
Accounts								
TOTAL ASSETS	209,560	153,143	9,060,415	362,362	2,670,168	208,155	238	651
LIABILITIES								
Salaries payable	3,118							
Accounts payable	497							
Due to other governments	204,852	153,143	9,060,415	362,362	2,670,168	208,155	238	651
Trusts payable								
Compensated absences	1,093							
TOTAL LIABILITIES	209,560	153,143	9,060,415	362,362	2,670,168	208,155	238	651

HANCOCK COUNTY
Garner, Iowa

Schedule 4
(continued)

AGENCY FUNDS
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
Year ended June 30, 2006

ASSETS AND LIABILITIES	Advance Tax	Agricultural Extension Education	Economic Development	Partial Tax Payments	Mobile Home Replacement	Recorder Electronic Transaction Fee	Other	Total
Balance beginning of year	105	108,612	13,070	150	10	282		11,684,449
Additions:								
Property and other County tax	536	109,539					15,567	13,190,747
E-911 surcharge								77,746
State tax credits		6,572						697,243
Office fees and collections						3,252		368,367
Auto licenses, use tax and postage								2,635,664
Assessments								78,808
Trusts								261,930
From other funds								124,337
Miscellaneous	10					4		37,833
Total additions	546	116,111				3,256	15,567	17,472,675
Deductions:								
Agency remittances:								
To other funds				150	10			477,169
To other governments		110,056	11,169				15,341	14,217,512
Trusts paid out						2,972		542,653
Total deductions		110,056	11,169	150	10	2,972	15,341	15,237,334
Balance end of year	651	114,667	1,901			566	226	13,919,790

See accompanying independent auditor's report.